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DESIGNING AN ACTIVITY CONTROL MODEL FOR FOSTERING COLLABORATION IN ORGANIZATIONS USING THE COSO FRAMEWORK

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Abstract

The prevailing business paradigm, largely rooted in Western economic principles, relies heavily on capital acquisition through bank loans. This model is mirrored by CV Mitra Karya Lima Sukses (MKLS), a construction and procurement firm that employs a collaborative management approach. While the community often turns to interest-bearing loans or loan sharks, MKLS recognizes the inherent inefficiencies associated with non-value-added interest. To mitigate this, the company has implemented strategies that include collective capital contributions from its employees. However, a comprehensive oversight framework for other business activities remains elusive. Implementing robust control activities is imperative to ensure smooth and effective operations. The COSO model, encompassing environmental control, risk assessment, activity control, information and communication, and monitoring, provides a suitable framework for achieving this goal. Research indicates potential risks, including the threat of fraud within collaborative endeavors. To address these concerns, agreements and insurance mechanisms can be employed to mitigate risks and promote equitable outcomes.

Keywords : COSO Model, Activity Control, Collaborative Value, Risk, Risk Mitigation

1. INTRODUCTION

Business comprises intricate activities, including capital activities, business objects, the contracts employed, and the methods used in business, all of which are inextricably linked to collaboration with other parties. Capitalization, which involves the infusion of funds to establish or expand an individual's business, is frequently accomplished through the application of bank loans. In the past, financing could be accomplished through collaboration or cooperation with other parties, such as fellow business investors (Fu & Cooper, 2021). The Western economic system is frequently implemented by businesses today, who obtain capital through bank loans. Institutions will generate interest through the provision of loans. It is widely recognized that capital is required for the operation or expansion of a business (Setiawan et al., 2021).

CV. Mitra Karya Lima Sukses (MKLS) is a construction and procurement service provider corporation that operates under a collaborative management policy. The organization was established by five individuals who are united in their dedication to its operations. That is the foundation of CV. MKLS's collaborative management company activities. The current financial loan model that is prevalent in society is either an interest-bearing loan model or through loan predators. That is in direct opposition to the principles that the organization has upheld since its inception. CV. MKLS endeavors to prevent non-value-added interest through a variety of methods, including the collection of necessary capital in collaboration with colleagues. Nevertheless, the company has not implemented a comprehensive control system for other activities that are associated with its operations. Control activities are necessary to guarantee that the duties are executed correctly to support the company's operations. This can be accomplished by employing the COSO model, which encompasses control activities, information and communication, risk assessment, control environment, and monitoring. These components are designed to ensure conformance with management policies, enhance efficiency, verify the accuracy and limitations of accounting data, and manage the organization's welfare (Muhammad Raihan Alfathi & Sugiyarti Fatma Laela, 2023).

The purpose of this research was to identify the risks associated with the business operations of construction companies and to ascertain the control measures that must be implemented to prevent the occurrence of these risks (risk mitigation).

2. LITERATURE REVIEW

2.1 COSO Internal Control Model

In the early 1980s, the world of business and government underwent a significant transformation as a result of the spread of accounting scandals. These scandals not only undermined the trust of the public in the integrity of company financial statements, but they also caused damage to investors and creditors. The Treadway Commission was established in response to this crisis of trust with the task of identifying the underlying causes of the issues and developing recommendations to prevent the recurrence of similar incidents.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was one of the significant results of the Treadway Commission's activity. COSO subsequently created a comprehensive internal control framework that not only became the most widely used standard in the world but also served as the foundation for corporate risk management practices. The COSO internal control model is intended to establish a uniform framework for the evaluation of internal control systems by management, the board of commissioners, and auditors. This paradigm underscores the significance of five internal control components: the control environment, risk assessment, control activities, information and communication, and monitoring. Companies can enhance operational efficiency, mitigate the risk of fraud, and improve the quality of financial reporting by implementing the COSO model. The COSO model also benefits external parties, including investors, creditors, and regulators, by ensuring that the company has implemented a sufficient internal control system. The following is a list of the five independent organizations that established COSO.

1. International Institute of Internal Auditors (IIA)
2. American Institute of Certified Public Accountants (AICPA)
3. American Accounting Association (AAA)
4. Financial Executives Institute (FEI)
5. Institute of Management Accountants (IMA)

The COSO model has been increasingly embraced over time. The AICPA, the regulatory body for the public accounting profession in the United States, officially acknowledged the COSO model's superiority by incorporating it into their audit standards in 1992 (SAS 78). This measure was a significant turning point, as audit standards are the primary reference for auditors when evaluating a company's internal control system. The AICPA's adoption of the COSO model further solidifies its status as the most widely used framework for the development of effective internal control structures. To this day, numerous organizations continue to utilize the COSO 2013 internal control model as their primary reference. This paradigm offers a comprehensive framework for the development of effective internal control systems. In the context of COSO, internal control is a collection of policies, procedures, and processes that are intended to furnish reasonable assurance that the organization's objectives are accomplished. The seamless operation of this system is contingent upon the contributions of all stakeholders, from the board of directors to lower-level employees (Yilmaz & Karakaya, 2020).

The primary objective of the internal control model implementation is to enhance the organization's value. In simpler terms, an efficient and effective internal control system will facilitate the organization's pursuit of its objectives. Furthermore, internal control is crucial in ensuring that the organization's activities are proceeding as intended. The Institute of Internal Auditors (IIA) provides a more formal definition of internal control. The IIA defines internal control as the comprehensive endeavors of the board of supervisors and management to identify,

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manage, and mitigate risks that could impede the organization's objectives. In this context, the objectives of the internal control structure that institutions have established are summarized as follows:

1. Asset safeguarding
2. Preventing expenditures that could be considered inappropriate
3. Safeguarding against obligations and insufficient resources
4. Guaranteeing the dependability and precision of financial and business operations
5. Guaranteeing the institution's efficiency
6. Assessing and verifying the organization's dedication to its policies (Udeh, 2020).

2.2 Risk

Risk can be defined as an opportunity or event that is likely to occur and affect the attainment of objectives. Thus, risk is a possibility for an event to occur, which, if it does, will lead to either profit or loss. Adverse risk is a factor that induces an unforeseen circumstance that may lead to loss, injury, or loss (Salain et al., 2019).

There will undoubtedly be dangers associated with any activity, regardless of its size. They must be anticipated to the greatest extent possible, as each of these dangers will have its own impact (Santana et al., 2023). Risks must be managed because they can have detrimental effects on individuals or organizations. This is because risks can result in peril or loss and can be caused by a variety of sources, including natural disasters, accidents, financial market fluctuations, or human errors. It is essential to manage risks to safeguard individuals and organizations from potential hazards and to enhance their likelihood of success (Melani et al., 2021).

Risks may arise from a variety of sources, including market uncertainty, regulatory changes, new technologies, or internal management errors. The prevalence of risk frequently becomes a critical factor in the context of strategic decision-making, significantly influencing the success or failure of an organization's strategies. The organization's survival, reputational harm, or financial losses may result from a failure to manage risks (Ansyari, 2024)

Risks can be classified as follows based on the sources of their causes:

1. The risk that originates from within the corporation is known as internal risk.
2. External Risk, which is the risk that originates from the external environment or the company.
3. Financial Risk, which is the risk resulting from economic and financial factors, including currency fluctuations, interest rates, and price fluctuations.
4. Operational Risk, which encompasses all risks that are not classified as financial risks. Human, natural, and technological factors are the sources of operational risks (Lokobal et al., 2014).

2.3 Risk Mitigation

In managerial technical terms, the terms "risk" and "mitigation" are frequently used simultaneously. Gallati believes that mitigation is a control or program that is intended to lessen the frequency, severity, impact, or exposure of an event or to eradicate (or transfer) elements of operational risk. Risk is defined by the ISO 9001:2015 standard as the influence of uncertainty on the anticipated outcome. Impact is a deviation from the anticipated outcome, whether it is positive or negative. Risk pertains to potential outcomes and their consequences. Risk also takes into account the probability of occurrence (Hidayat & Widara, 2023)

A risk mitigation strategy is a conceptualized action plan that involves the development of options to improve opportunities. This approach implements an exhaustive assessment to mitigate the probability of disruptions, vulnerabilities, or hazards that could disrupt business operations, projects, or any other enterprise. The appropriate response for each risk must be identified and documented in the risk register. The process of risk mitigation entails the creation of a mitigation plan that is intended to mitigate, eradicate, or reduce risks to a level that is deemed acceptable. The plan is perpetually monitored to evaluate its effectiveness following its implementation, to revise actions as needed (Ahmed, 2017).

The following four actions can be taken to address a prospective risk:
1. Risk Retention; This is a method of managing the risk that is either retained or assumed by a single party. This procedure is typically implemented when the associated risk does not result in a significant loss, the damage is minor, or the cost of processing it is less than the benefit.
2. Risk Reduction; Risk reduction is a process that can be achieved by offering guarantees in the event of a loss and providing workers with the necessary training to manage risks.
3. Risk Transfer; The act of risk transfer involves the transfer of risk to another party.
4. Risk Avoidance; The endeavor can be rejected or declined to mitigate risk (Lestari et al., 2023).

2.4 Risk Assesment

Risk is a potential threat to the performance of a business in meeting its established objectives (Udeh, 2020). The primary focus of an independent audit is the function of management in the identification and management of business risks. Auditors will assess the extent to which management fulfills its obligation to evaluate risks that may impact financial statements, such as those associated with regulatory changes, human errors, and uncertainties in the business environment(Zainuldin & Lui, 2020).

The subsequent phase involves conducting a comprehensive evaluation following the identification of potential hazards that could impede the company's ability to achieve its objectives. This procedure entails an assessment of the probability of a risk occurring and the magnitude of its effect on the business. In the course of conducting assessments, companies typically integrate qualitative methods, which concentrate on the nature and characteristics of risks, with quantitative methods, which employ numerical values to quantify probability and impact. The following are the principles for risk assessment, as outlined by COSO:
1. Establishing objectives and priorities
2. Risk identification
3. Assessment of Risk Levels
4. Assessing the risk of fraud in the pursuit of objectives
5. Recognizing and assessing modifications in risk that will influence the internal control framework (Udeh, 2020).

3. IMPLEMENTATION METHOD

The approach used in the research method is descriptive-exploratory. This research thoroughly examines descriptive data about actions undertaken in building projects to apply the concepts of collaborative management (Sugiyono, 2019). Implementing efficient internal control systems helps foster a collaborative work environment for commercial activities. This process encompasses multiple steps, beginning with a comprehensive analysis of the company's internal environment, identification of potential risks, and culminating in the creation of targeted control measures. Each stage of analysis must be tailored to the company's setting, particularly in defining the scope of observation during the identification of the control environment.

4. RESULTS AND DISCUSSION

The initial step in the process of developing control activities for collaborative values/culture is to establish the governance and corporate culture framework. This framework includes the following: (1) Board of Directors oversight; (2) organizational structure establishment; (3) definition of expected culture; (4) commitment to organizational values; and (5) human resource management.
1. Supervision by the Board of Directors

To preserve corporate values, general collaboration requirements are established at this stage, including the following: (1) Principles of partnership, equality, cooperation, and mutual benefit; (2) The principle of consensus in policy-making; (3) Mutual respect, among others.

2. Establishment of the Organizational Structure
   The organizational structure has been established with the board of commissioners as the upper management, followed by the board of directors, who are responsible for administration, purchasing, and digital marketing. The board of directors is responsible for the administration of collaboration values, and the commissioners receive an annual report.
3. Expected Culture The company defines a collaborative culture as the following: Collaboration with other parties through funding with shared profits; Collaboration with other parties in the provision of materials or facilities; and Collaboration with other parties in the provision of specialized labor for specific tasks being handled.
4. Adherence to the Core Values of the Organization
   The company's commitment is demonstrated through the establishment of KPIs (Key Performance Indicators) through focus group discussions. These KPIs include the following: completion of work with a collaboration mechanism of 60% of the total work; budgeting company funds for work at a maximum of 50% of the total costs required to complete the work; and a maximum of 10% fraud occurring on company funds during the execution of work.
5. Human Resource Management
   A supervisory council is necessary to guarantee that the company's values are consistent with the activities of human resource management. The commissioners, in this instance, serve as the supervisory body responsible for making decisions regarding employee training.

The second stage involves the establishment of strategies and objectives that are divided into four phases: Business Context, Risk Identification, Evaluation of Alternative Strategies, and Formulation of Organizational Objectives.

1. Context of Business
   Internal factors and external factors comprise the business context. Internal factors include the following: (1) modifications to human resources; (2) modifications to organizational structure; (3) modifications to work procedures; and (4) the adoption of technology. External factors encompass the following: (1) economic growth; (2) level of competition; (3) legal compliance; (4) environment; and (5) social factors. The following are the hazards that have been identified through employee discussions:
   a. Risk of extended work processes
   b. Risk associated with employee competence
   c. Risk of protracted discussions regarding cooperation, rights, and obligations
   d. Risk of fraud in the cooperation that is conducted
2. Risk Identification
   The company establishes several conditions for approving cooperation after assessing the potential risks. These conditions include the following: the use of bank loans to fund project activity if no investors are interested in participating in the project; the use of bank transfers for fund disbursement and distribution; and the participation of employees in the cooperation.
3. Assessment of Alternative Strategies
   To realize the ideal company value, the organization assesses its existing strategies.
4. Establishment of Organizational Objectives
   The company's objectives are as follows:
   a. Executing project work activities with costs that are shared with partners.
   b. Executing project work activities with capital contributions in the form of materials from collaborators.
   c. Executing project work activities with economically efficient labor contributions.

Performance assessment is the third stage, which is divided into four phases: Risk Identification, Risk Severity Assessment, Risk Priority Determination, and Risk Response Implementation.

1. Risk Identification
   Existing risks, new risks, and forthcoming risks are the three categories into which risks are divided. The hazards of the company are divided into the following categories:
   a. Existing risk of extended work processes
   b. The new risk associated with employee competence
   c. New risk associated with the duration of cooperation discussions, rights, and obligations
   d. The potential for fraud in the impending cooperation
   e. Upcoming technology adoption risk
   f. Potential reputational risk in the context of competition (upcoming)
   g. Risk of legal compliance (will occur).
2. Evaluation of Risk Severity
   The author employs the Likert Scale to ascertain the risk's severity level at this juncture. Table 1 and Figure 1 illustrate the outcomes of the risk assessment and risk mapping.

Table 1. Risk Severity Assessment

No	Risk(s)	Frequency	Impact
1	Risk of extended work procedures	4	5
2	Risk related to employee competence	3	4
3	Risk of the duration of cooperation discussions, rights, and obligations	2	2
4	Risk of fraud in the cooperation conducted	4	4
5	Risk of technology adoption	4	1
6	Reputational risk in competition	2	1
7	Legal risk related to compliance	1	1

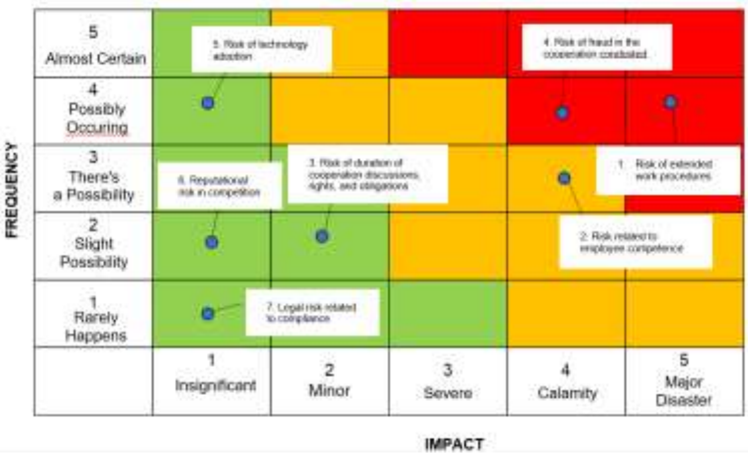

Figure 1. Determination of Risk Priority Levels

3. Determination of Risk Priority Levels
   The risks that will be prioritized for resolution are:
   a. The risk of prolonged work processes
   b. The risk of fraud in the collaboration conducted
   c. The risk related to employee competence

4. Implementation of Risk Response
   Risk response is carried out by accepting, avoiding, pursuing, mitigating, or sharing.

Table 2. Risk Response

No	Risk(s)	Response	Cost
1	The risk of prolonged work processes	Reduce	Low
2	The risk of fraud in the collaboration conducted	Share	High
3	The risk related to employee competence	Reduce	High

The risks that have been discovered are certainly extremely undesirable for the organization. In order to reduce the dangers, a plan was subsequently created. Table 3 lists the strategies that can be developed.

Table 3. The Relationship Between Risk and Organizational Strategy

Risk(s)	Proposed Strategy
The risk of prolonged work processes	Collaboration is feasible until coordination is achieved. After the completion of that stage, there is no additional space for colleagues to make modifications.
The risk of fraud in the collaboration conducted	Enhancing employee competencies under employment specifications.
The risk related to employee competence	Implementing internal and external control mechanisms (including benchmarking) to mitigate the risk of fraud.

4. CONCLUSION

This study identifies three primary risks that pose a threat to the operations of the company: operational risk, reputational risk, and human resource risk. The potential disruption to operational efficacy is reflected in the risk of extended work process times. The company's reputation and financial losses may be harmed by the risk of deceit in collaboration. In the interim, the company's strategic objectives may be impeded by hazards associated with employee competence. Therefore, it is imperative to implement risk mitigation strategies, including the development of employee competencies, the fortification of internal control systems, and the rigorous selection of business partners, in order to maintain the company's value.

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